

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:INTL:B01
PLR-127535-14
Date:
January 12, 2015

Legend

Taxpayer =

Country X =

Dear :

This responds to a letter from your representative dated July 15, 2014, requesting a ruling concerning the treatment of royalties under the royalties article of the United States-Country X income tax treaty (the "Treaty").

Taxpayer is a Country X corporation in the television broadcasting business and owns television channels that are broadcast from Country X via satellite. Taxpayer licenses access to the channels and their use to its wholly owned U.S. subsidiary. The U.S. subsidiary entered into a non-exclusive agreement with an unrelated U.S. distributor to show the channels on the distributor's platform in the United States. The U.S. subsidiary will receive fees from the distributor based on subscriptions. The U.S. subsidiary will then pay a royalty to Taxpayer for the broadcasting of the channels.

Taxpayer represents that it neither engages in trade or business in the United States through a permanent establishment, nor carries on business in the United States through an employee or agent with general authority to contract on its behalf.

RULING REQUESTED

Taxpayer will not receive royalties within the meaning of “royalties or rentals from motion picture films” and will receive a full exemption from tax under the royalties article of the Treaty.

LAW AND ANALYSIS

Section 881(a)(1) of the Internal Revenue Code imposes a tax of 30 percent of the amount received from sources within the United States by a foreign corporation on fixed or determinable annual or periodic gains, profits, and income. Section 1.1441-2(b)(1) of the Income Tax Regulations provides that royalties are included in fixed or determinable annual or periodical income.

Section 894(a), however, provides that income of any kind, to the extent required by a treaty obligation of the United States, shall not be included in gross income and shall be exempt from taxation under subtitle A of the Code.

The royalties article of the Treaty exempts from U.S. income tax all royalties except “royalties or rentals from motion picture films.”

The royalties at issue are paid by U.S. distributors for Country X television programming, and not for the distribution of motion picture films.

CONCLUSION

Based on the foregoing, we rule that royalties paid to Taxpayer for the broadcasting of television channels are exempt from U.S. income tax under the royalties article of the Treaty.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Elizabeth U. Karzon
Chief, Branch 1
Office of Associate Chief
Counsel (International)